

# **Rehabilitation of informal housing: the economic and financial sustainability perspective**

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There are traditionally many disadvantaged and vulnerable families that live in under comfort-housing conditions in city centres. This communication presents the goals, methodology, outcomes and conclusions of a technical, economic and financial study that assesses how to provide better dwelling conditions to this people through urban rehabilitation operations, assuring their stay in the places they traditionally inhabit. The current consultancy study – delivered to Porto town council (Portugal) – is applied, as a case study, to a set of “islands”<sup>1</sup> located in the urban rehabilitation area of Santos Pousada in Porto city.

The economic and financial feasibility study herein presented shows that, within the Portuguese and Porto currently enforced urban rehabilitation and planning legislation, the application of the financial tool “Rehabilitation to rent – affordable housing”<sup>2</sup> - recently passed - turns possible the rehabilitation of these “islands” in a social-oriented way. This rehabilitation intervention should be mastered by the municipal powers, namely in what concerns the provision of management services, and the facilitation of trade-offs among the involved stakeholders. Besides assuring the required social cohesion and all citizens’ equal treatment, it is also sustainable from an economic and financial standpoint, what is more and more relevant within the current financial-crisis framework.

The methodology is pursued through the following steps: (a) quantitative local data collection and population surveys (b) proposal of a physical intervention in dwelling rehabilitation providing resident families with a warranted surface between 50 and 60 square meters<sup>3</sup>, and assuring as far as possible that most families remain in the “islands” where they currently live; (c) identification, according to this proposal, of the number of new dwellings that will become unoccupied and, therefore, integrate a “dwelling repository” to manage in order to somehow cover at least part of the rehabilitation costs;

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<sup>1</sup> The “islands” are typical informal dwellings in Porto city, and consist in ranks of short houses that were built from the beginning of the 19<sup>th</sup> century to lodge workmen that successively arrived to the city. These are mainly privately owned or rented dwellings, but some are owned by public or private organs.

<sup>2</sup> This financial tool is called “Reabilitar para Arrendar – Habitação Acessível” in Portuguese language.

<sup>3</sup> The average surface of an “island” dwelling is currently around 35 square meters.

(d) assessment of the intervention costs, according to dwellings' keeping condition; (e) assessment of the financial burden to be supported by dwelling owners according to the financial tool recently enforced and aimed at the rehabilitation of private dwellings "Reabilitar para Arrendar"; (f) assessment of the rents according to the enforced legislation, and (g) comparison between cost burdens and incomes, keeping in the "island" the deprived families that traditionally live there, and selling or renting the new dwellings that belong to the "dwelling repository".

As far as the "islands" located in the urban rehabilitation area of Santos Pousada are concerned, the main outcomes of this work – considering the total gross surface of each "island" is kept - point out the proposal to demolish 5 ruined dwellings, and to reconvert the initial 257 dwellings – currently inhabited by 159 families - into 173 new dwellings, thus resulting 23 unoccupied new dwellings. These circumstances require the ultimate rehousing of 9 families.

The computations performed point out a demolition cost of 538 euros, an average rehabilitation cost of 17.342 euros per dwelling, and a total rehabilitation cost for all the "islands" located in this urban rehabilitation area of 2 416 835 euros.

It was then computed the value of the loan resulting from the operational intervention proposed for each "island" – considering the intervention costs previously computed – using the financial tool already referred to. Rehousing costs add to these burdens, considering they amount to about 200 euros per family, supposing the city council have enough social housing units at its disposal. It was further considered a possible curtailment of about 10% of the intervention costs in the linkage to infrastructure networks (electricity, water, sanitation and gas), architecture projects and municipal fees' exemption.

The average burden per dwelling amounts to 32 117 euros, and the average burden per "island" to about 248 thousand euros. The net present value of these global costs to be supported by dwellings' public or private owners was computed considering a present rate of 4,5% per annum, and the payment of the interest liabilities at the end of each year, with the redemption of the whole loaned capital (90%) at the end of the 15<sup>th</sup> year, paying the 10% of own capital at the beginning of the intervention.

The same present rate was used in the computation of the net present value of rents, considering the rent flows take place at the end of each year during the loan period (fifteen years). The average provisional rent per dwelling – according to the urban rent law, the real estate municipal tax code, and the statements of the financial tool "Reabilitar para

arrendar” – amounts to about 250 euros, what means an average value of 1 924 euros per “island” and a total amount of 42 337 euros resulting from the whole rehabilitation intervention.

The sale of the new 23 available dwellings, by its turn, would amount to 2.512.335 euros, what turns the rehabilitation intervention in all the “islands” of this urban rehabilitation area sustainable from an economic and financial perspective as its total costs amount to 2 416 835 euros. This scenario assumes that the available dwellings will have housing uses, but should they be used for trade or services uses, the income value should increase substantially.

This study stresses how urban rehabilitation interventions can strongly encourage and support an honourable social cohesion and integration – namely on housing quality and comfort grounds – in order to settle an alternative to the traditional trust in welfare state that should shoulder all the social needs, but that faces increasing financial difficulties that hamper the achievement of its social function.

It clearly shows that the sketch of proper financial instruments turns rehabilitation interventions sustainable from an economic and financial perspective, thus strengthening their social impact. And it supports the achievement of the most important goal of this kind of intervention: to provide deprived families better housing conditions, still assuring their social inclusion in the centre of cities, where they have always traditionally lived.

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